

Market report: Chinese oil companies' investment in Canada

By
Lei Wang (Eliza)

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Approved: Dr. Gordon Fullerton.
Supervisor

Approved: Dr. Mark Raymond
Examiner

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Abstract

Abstract: Canada has become one of China's major oil-importing countries since 2005. In 2010, China's oil companies invested over \$20 billion in Canada's oil and related industries. This report consists of an industry analysis that identifies the current global petroleum industry (which will be referred to as the oil and gas industry in some parts of the report) and the key factors of this industry. This will be followed by the market analysis in which part of the Canadian petroleum industry will be addressed as well as a case-specific analysis of CNOOC's takeover of Nexen. At the end of the report, potential options for Sinopec's foreign investment in the Canadian market will be demonstrated.

April 30, 2013

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Introduction

Research Background

On February 25, 2013, the government-owned China National Offshore Oil Corporation (CNOOC) completed the acquisition of Calgary-based Nexen Inc. for \$15.1 billion, which is the largest foreign investment ever made by Chinese companies.¹ After this acquisition of Nexen, the oil-production ability of CNOOC will approach that of Sinopec, which is the largest national-owned oil company in China.² Canada, whose oil-reserve ranking is the second largest in the world, is one of the most important overseas target markets for Sinopec.³ This report is going to analyze potential options for Sinopec to take in terms of foreign investment in Canada.

Research objective

The main objective of this report is to identify the possible challenges for Sinopec in investing in the Canadian oil sands market and to analyze potential options for Sinopec to take in terms of foreign investment in Canada. This will help Sinopec to create a strategy for investing in Canada.

The completed project consists of an industry analysis that identifies the current global petroleum industry (which will be referred to as the oil and gas industry in some parts of the report), and the key factors of this industry. This will be followed by the market analysis, in which part of the Canadian petroleum industry will be addressed as well as a case-specific analysis of CNOOC's takeover of Nexen. At the end of the report, potential options for Sinopec's foreign investment in the Canadian market will be demonstrated.

¹Nexen (n.d). News release. Retrieved from http://www.nexeninc.com/en/AboutUs/MediaCentre/NewsReleases/News/Release.aspx?year=2013&release_id=135183, on March 3, 2013

²Li, C.L. (2012, December 10). After this acquisition of Nexen, the oil-production ability of CNOOC is approaching that of Sinopec. *Securities Daily*. Retrieved from <http://finance.yynet.com/3.1/1212/10/7671626.html>, on December 11, 2012

³Rachovich, D. (2012, January 2). *World's Top 23 Proven Oil Reserves Holders*. Retrieved from http://petroleuminsights.blogspot.ca/2012/01/worlds-top-23-proven-oil-reserves.html#_UXhPuaL1DTg

China's Oil Industry

1. Key players of China's oil industry

In China, the top three giants in the oil and gas industry are owned by the Chinese government: China National Petroleum Corp (CNPC), China Petroleum & Chemical Group (Sinopec), and China National Offshore Oil Corporation (CNOOC). Figure 1 shows the global ranking of these three oil companies in the Global 500 in 2012.

Company	Global Ranking	Revenue Million \$	Profit Million \$	Asset Million \$	Number of Employees
Sinopec ⁴	5.00	375,214.00	9,452.90	277,297.00	1,021,979.00
CNPC ⁵	6.00	352,338.00	16,317.00	481,073.50	1,668,072.00
CNOOC ⁶	101.00	75,514.00	8,836.00	114,161.70	98,750

Figure 1: Numbers for China's Oil Companies in 2012

CNPC⁷

CNPC is the largest national petroleum company in China, producing and supplying the greatest amounts of oil and gas. The businesses of CNPC cover all oil- and gas-related industries, which include upstream, midstream, downstream and chemical businesses such as oil and gas exploration, production, pipelines, refining, and marketing of oil and

⁴Globe 500 (2012). CNN Money. Retrieved from <http://money.cnn.com/magazines/fortune/global500/2012/snapshots/10694.html>, on December 10,2012

⁵Globe 500 (2012). CNN Money. Retrieved from <http://money.cnn.com/magazines/fortune/global500/2012/snapshots/10939.html>, on December 10,2012

⁶Globe 500 (2012). CNN Money. Retrieved from <http://money.cnn.com/magazines/fortune/global500/2012/snapshots/11382.html>, on December 10,2012

⁷About CNPC (n.d). Retrieved from <http://www.cnpc.com.cn/en/aboutnpc/ourbusinesses/>, on December 10,2012

gas products. The business focus of CNPC is upstream, especially petroleum exploration and production, and CNPC has major oilfields in China. The annual oil and gas production of CNPC contributes 70 to 80% of the total production of the three companies. CNPC has oil and gas operations in 29 countries around the world, with 35 production projects overseas.⁸ Total oil and gas output of CNPC's overseas projects stood at 100.15 million tonnes of oil equivalent in the past year, including 86.21 million tonnes of crude oil and 17.5 billion cubic metres of natural gas, CNPC said.⁹ The largest number of overseas investments by CNPC are in Africa and western Asia, which are tropical oil and gas production areas.¹⁰

Sinopec¹¹

Sinopec is China's second-largest government-owned petroleum company and second-largest crude-oil producer. It takes first place among these three companies in producing and supplying refined-oil products (gasoline, diesel, etc.) and petrochemical products (synthetic rubber, petrochemical intermediates, etc.). The main focuses of Sinopec are midstream and downstream operations, especially producing and marketing petrochemical products.

As of 2011, Sinopec owned 47 overseas projects in 23 countries and regions. The total amount of this investment comes to \$100 billion (600 billion Yuan).¹² In 2011, Sinopec invested in seven foreign projects, which include Daylight (Canada), Portugal–Galp's Brazilian assets, Devon, and the production of crude oil from APLNG (Australia), etc.

⁸Song, Y, L., (2012, December 18). China CNPC's overseas equity production hits 1.05 million boe/d. Platts. Retrieved from <http://www.platts.com/RSSFeedDetailedNews/RSSFeed/Oil/8001088>, on December 20,2012

⁹CNPC's overseas oil, gas output remains high (2012, December 18), English.news.cn. Retrieved from http://news.xinhuanet.com/english/china/2012-12/18/c_132048990.htm, on December 22,2012

¹⁰About CNPC. Retrieved from <http://www.cnpc.com.cn/en/aboutcnpc/ourbusinesses/>, on December 10,2012

¹¹Our company, Sinopec. Retrieved from http://english.sinopec.com/about_sinopec/our_company/20100328/8532.shtml, on December 10,2012

¹²Sinopec overseas investment followed Mr. Fu's mode (2012, September 24), *Chinese petroleum and petrochemical*. Retrieved from http://www.360doc.com/content/12/0930/17/4802652_238919308.shtml, on December 8,2012

Six of the seven projects are completed. Its interests in oil and gas production exceeded 20 million tons for the first time.¹³

CNOOC¹⁴

CNOOC is China's third-largest state-owned petroleum company and also the largest offshore oil and gas producer in China. The businesses of CNOOC include upstream, mid and downstream, technical services (offshore oil and gas engineering and construction, etc.), financial services and alternative energy. CNOOC mainly focuses on exploiting, exploring, and developing oil and gas offshore from China.

The overseas investment of CNOOC includes oil and gas projects, with locations in Asia, Africa, North America, South America and Austria. In 2012, more than 17.3%¹⁵ of its crude oil and gas production interests was from overseas investment.¹⁶

2. Current situation of China's oil industry

China is the second-largest economy in the world. As a developing country, China consumes more energy and construction materials every year, and thus its demand for crude oil increases as well. In the report *Overseas Investments By Chinese National Oil Companies*, Julie Jiang and Jonathan Sinton have analyzed the reasons why Chinese national oil companies need to go overseas.¹⁷ The main reason is that the increasing demand for petroleum products cannot be met by the domestic supply. This unbalanced supply-demand relationship is forcing Chinese petroleum companies to start to invest and develop oil reserves overseas. In addition, the problem of aging oil fields is also dragging

¹³Our company, Sinopec. Retrieved from http://english.sinopec.com/about_sinopec/our_company/20100328/8532.shtml, on December 10,2012

¹⁴About us (n.d). CNOOC. Retrieved from <http://www.cnooltd.com/encnooltd/aboutus/default.shtml>, on December 10,2012

¹⁵10.9/63=0.1730

¹⁶Nelson, J. (2013, July24). CNOOC's other foreign assets. *The Globe and Mail*, Retrieved from <http://m.theglobeandmail.com/report-on-business/streetwise/cnoocs-other-foreign-assets/article4436023/?service=mobile>, on December 10,2012

¹⁷Jiang, J., & Sinton, J.(2011, February).Overseas Investments By Chinese National Oil Companies. Retrieved from http://www.iea.org/publications/freepublications/publication/overseas_china.pdf, on December 10,2012

down the oil supply¹⁸. Figure 2 shows China's share of the growth in global oil demand. It can be noticed that China's oil-demand growth rate is higher than the global average. Figures 3¹⁹ and 4 demonstrate that the oil supply in China could no longer satisfy its oil consumption after 1990. As a result, overseas projects started to emerge. By the end of 2010, these three companies had invested a total of \$70 billion in 144 overseas projects.²⁰ (For details, see Appendix 1.)

CHINA'S SHARE IN THE GLOBAL ECONOMY AND ENERGY MARKETS

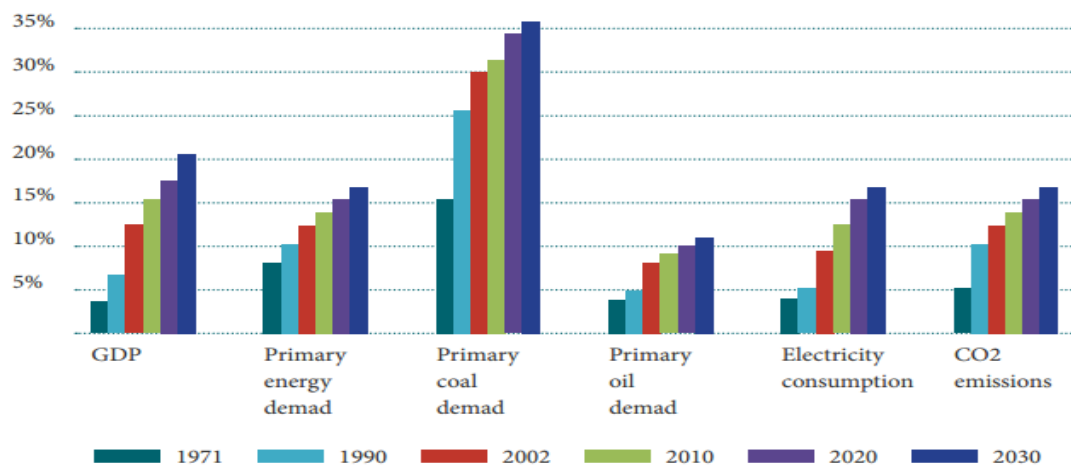


Figure 2: China's share in the global economy and energy markets

Source: International Energy Agency, 2005²¹

¹⁸Ibid

¹⁹Ibid

²⁰More than half of oil giant overseas investment get financial loss(2011, July 20).*21st Century Business Herald*. Retrieved from <http://www.cpcia.org.cn/html/16/20117/908803705.shtml>, on December 10,2012

²¹China 10 Year Time Series Report (2). IEA. Retrieved from http://omrpublic.iea.org/supply/ch_to_ts.pdf, on December 10,2012

CHINA OIL SUPPLY BALANCE

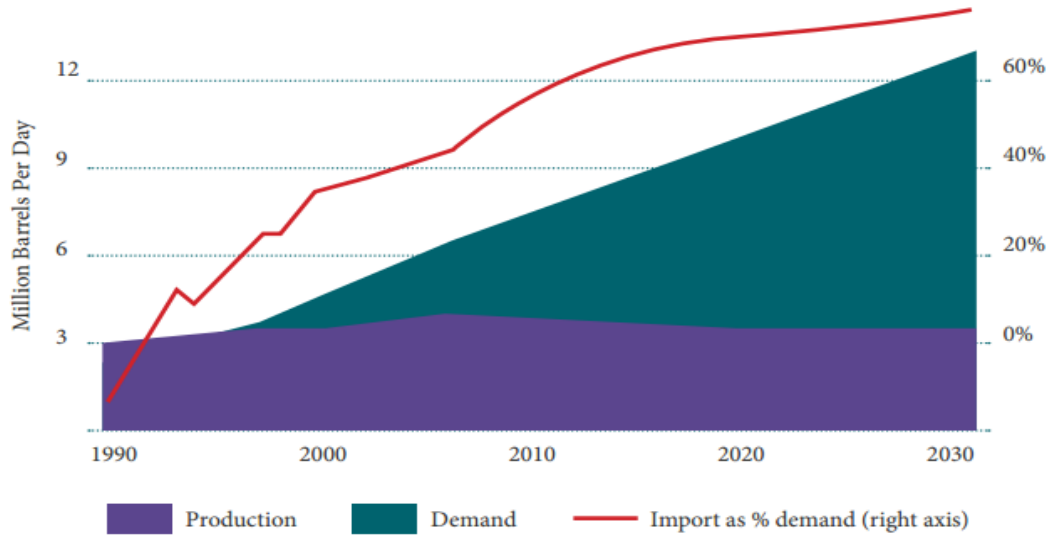


Figure 3 Source: International Energy Agency, 2005²²

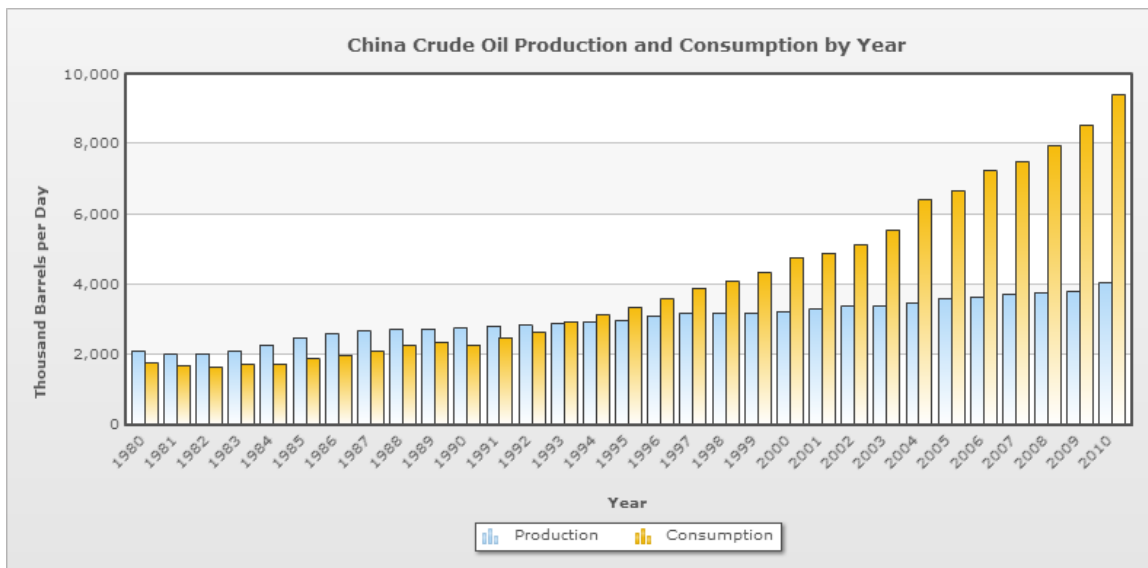


Figure 4 Source: US Energy Information Administration²³

²²China 10 Year Time Series Report(2005). IEA. Retrieved from http://omrpublic.iea.org/supply/ch_to_ts.pdf, on December 10,2012

²³China Crude Oil Production and Consumption by Year (2010). IndexMundi. Retrieved from <http://www.indexmundi.com/energy.aspx?country=cn>, on December 10,2012

Approach

The approach of this report focuses on three key factors and on questions related to these factors.

Industry: what is the current situation of the oil and gas industry? What are the key elements of the oil industry?

Market: what are the current status/main resources of the oil-industry market in Canada?

Why do people invest in Canada?

Case: what are the benefits and challenges facing CNOOC when taking over Nexen?

What are Sinopec's options as a result of learning from CNOOC taking over Nexen?

Industry analysis

General background

The oil and gas industry is one of the world's largest, most complex and important industries. According to a MarketLine report, the net worth of the global oil and gas market was just over \$2,640 billion in 2010 and is predicted to grow at 7% compound annual growth rate²⁴. Based on research and analysis from Datamonitor, the global oil and gas industry will be worth more than \$3,192 billion by the year 2014²⁵. Not only does the oil and gas industry have such a remarkable scale, it also affects nearly everyone's daily life with impacts ranging from energy, construction and medical products to clothing, eyeglasses and carpets.

There are two major sectors in the oil and gas industry:

²⁴Oil and Gas Energy Industry: Market Research Reports, Statistics and Analysis (n.d).Retrieved from <http://www.reportlinker.com/ci01331/Oil-and-Gas-Energy.html>, on December 10,2012

²⁵Oil & Gas: Global Industry Almanac(2010, July). Retrieved from <http://www.reportlinker.com/p0133025-summary/Oil-Gas-Global-Industry-Almanac.html>, on December 10,2012

1. Upstream²⁶: the process of locating, extracting and refining crude oil. In the refinery process, crude oil is physically, thermally and chemically separated into finished products among these products, 90 percent are fuels such as gasoline, distillate and residual gas, liquefied petroleum gas and kerosene. Some non-fuel products also come out of such procedures, such as petrochemicals, asphalt, road oil, lubricants, solvents and wax.
2. Downstream²⁷: marketing and distribution of products derived from crude oil and natural gas. Within this sector, gas stations are built to sell consumer-grade oil products, and distribution centres are built to support the transportation of end product of oil and gas industry.

Effect on global economy

With its massive scale, the oil and gas industry has a tremendous effect on the global economy. The International Energy Agency (IEA) predicts in its 2010 annual report that energy demand will rise at an average rate of 1.5 percent until 2030, and that most of the world's growing energy needs will be met by oil, gas and coal²⁸. For developed countries, fossil fuels are the main sources of energy. For example, according to statistics from the US Department of Energy (DOE) in 2008, 80percent of energy is generated by consuming fossil fuel, within which 40 percent is from oil²⁹.

On the demand side – as a matter of fact, all countries are consumers of products from the oil and gas industry. The latest global demand estimate for the end of 2012 comes out at 91.2 million barrels per year, equivalent to a year-on-year growth rate of 1.7percent,

²⁶ The Industry Handbook: The Oil Services Industry(n.d.). Retrieved from http://www.investopedia.com/features/industryhandbook/oil_services.asp. onSeptember 27, 2012

²⁷Ibid

²⁸World Energy Outlook 2011 – Executive Summary (2011).Retrieved fromhttp://www.iea.org/publications/freepublications/publication/name_20549.en.html, on September 27, 2012

²⁹Primary Energy Overview 1949–2011(n.d).Retrieved from <http://www.eia.gov/totalenergy/data/annual/index.cfm>,on September 27, 2012

according to an International Energy Agency oil market report released on January 18, 2013³⁰.

Marilyn Radler from the Oil & Gas Journal also states that global oil consumption will increase by 1.5 million barrels per day by the end of 2013.³¹

On the supply side – oil-supplying countries are generally either OPEC or non-OPEC.

Below is a chart specifying the world’s top exporters of petroleum.³² Among the top 10 biggest oil exporters, 7 are members of OPEC.

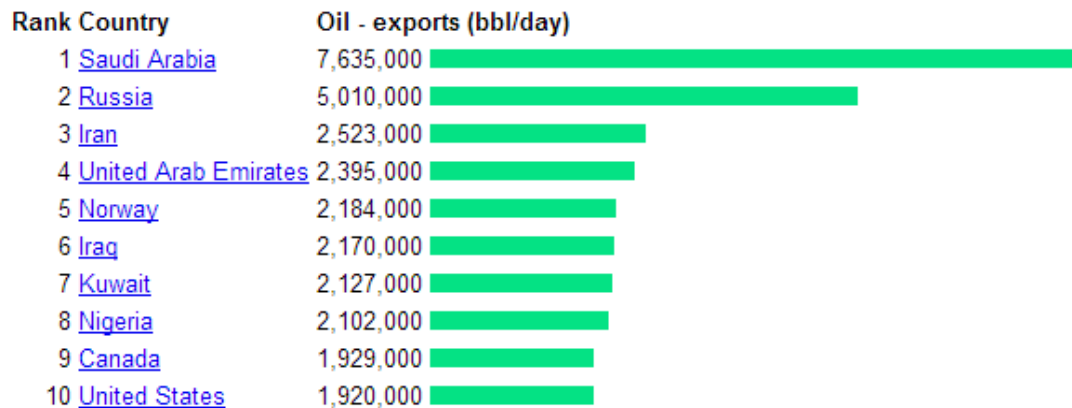


Figure 5 – Source: Index Mundi³³

According to the outlook report by the Organization of Petroleum Exporting Countries (OPEC) in 2012, the overall non-OPEC oil supply of crude oil is going to increase until shale oil starts to expand significantly in 2020.³⁴ Also, it is pointed out in the report that, given the fact that crude oil is a non-renewable resource, the supply will be increasing at a diminishing rate and will finally drop.

³⁰Oil Market Report Released January 18, 2013 (2013). IEA. Retrieved from <http://omrpublic.iea.org/archiveresults.asp?formsection=full+issue&formdate=%25&Submit=Submit>, in 2013

³¹Marilyn Radler (January 10, 2012). *EIA forecasts oil, gas demand increases through 2013*. *Oil & Gas Journal*. Retrieved from <http://www.ogj.com/articles/2012/01/eia-forecasts-oil-gas-demand-increases-through-2013.html>

³²Country Comparison – Oil Export – Top10 (2012,January 1). Index Mundi. Retrieved from <http://www.indexmundi.com/g/r.aspx?t=10&v=95&l=en>

³³Ibid

³⁴World Oil Outlook (2012).OPEC. Retrieved from http://www.opec.org/opec_web/en/publications/340.htm in 2013

Porter's 5 Forces Analysis³⁵

1. Threat of new entrants

There are tens of thousands oil and gas companies in the world, but the power of barriers of entering such industry is considered to be fairly strong to prevent any attempts.

Various barriers can be summarized into four categories.

Economies of scale³⁶ – the existing companies have already reached economies of scale which means the cost and profit balance has been efficiently improved. The cost of entering such industry is extremely high, so for new comers, it is not practical to make the attempts.

Technology barrier – both upstream and downstream of this industry will get involved with proprietary equipment as a result from advanced technologies. In addition to that, operating on complex equipment requires not only education but also expertise from skilled operators. The new comers will have to face a very deep gap in technology as well as experience when entering this industry.

Geographic barrier – crude oil reserve is located all over the world but the observed ones are concentrated only in some major areas. The existing reserve is all either occupied by companies with dominant comparative advantage or protected by local authority. Also, the risk of foreign exchange and taxes will make it even harder for new comers to seek opportunities abroad.

³⁵ Porter's 5 Forces Analysis is a tool to analyze where power lies in a business situation published by a Harvard professor -Michael E. Porter in the year 1979

³⁶ Economist Intelligence Unit (July, 2011). Economics of Scale. How the oil and gas industry cut the cost through replication. *The Economist*. Retrieved from [http://www.managementthinking.eiu.com/sites/default/files/downloads/Oil%20and%20Gas %20Economies%20of%20Scale.pdf](http://www.managementthinking.eiu.com/sites/default/files/downloads/Oil%20and%20Gas%20Economies%20of%20Scale.pdf)

Geopolitical barrier³⁷ – there are two factors regarding this type of barrier, one the location(similar to geographic barrier) and the other is religion and local policies. Difference governments are adopting different policies. Some of the policies will be friendly to oil and gas companies, such as lower cost of transportation, appropriate taxation and permit of operation from foreign companies. On the other hand, there are also some policies opposing the entrance of new players such as limitation of access to oil and gas reserve, high cost of employment and taxation, and religion conflicts.

Before the following power of suppliers and buyers forces analysis, there need to be mentioned that this report breaks down the supplier-buyer relationship in oil and gas industry into two layers. The first layer is within the producing side of the industry which involves the big oil mining and extracting firms and small supporting companies. The second layer refers to the relationship between oil and gas industry and the buyer of final petroleum products. Also, when it comes to the pricing of final petroleum product, the below analysis is demonstrating to the commodity aspect of petroleum.

2. Power of Suppliers

In the first layer, the supply side is made up by big oil mining and extraction firms who have the absolute dominant power on the supply over small supporting companies. The suppliers are operating in different territories all over the world, thus there is hardly cut-throat competition among them within their respective region of operation. As a result, the supporting companies have little arguing power on the price of the petroleum. In fact, in a specific territory, the suppliers within this layer can affect the oil price by determining the output of the crude oil. When the output is shrunk down, given the

³⁷NBR Report (September, 2012). Oil and Gas for Asia: Geopolitical Implications of Asia's Rising Demand. *NBR*. Retrieved from <http://www.nbr.org/publications/issue.aspx?id=269>

unchanged demand from the supporting companies, the price is going to increase, and vice versa. Within the second layer, due to the fact that price is predetermined within the first layer, the final product is fairly priced in respective markets. Thus the power of suppliers is largely deprived when facing the final consumers.

3. Power of Buyers

As a commodity, the oil and gas product of one company is not that much different from another's. Thus buyers in both layers can always seek for the better deal at lower price. Such price seeking nature of the buyers is directly affecting the price of the product. All suppliers want to keep their own market shares. Thus, if one of them lowers the price, the rest would have to do the same. However such an effect is somehow very limited. The nature of oil and gas product is not the same as other general commodities. Currently, there is still no other available-for-use substitutes (will be addressed in the fourth force in detail). In addition, the buyers in both layers cannot operate without such product. For example, a gas station cannot open for business if there is no reserve of gasoline and an individual consumer cannot move his/her car if there is no gas in the tank. As a result, the buyer's effect is considered to be very limited when it comes to the pricing of petroleum product and at the same time the demand from the buyer's side is very steady and strong.

4. Threat of Substitutes

According to OPEC 2012 World Oil Outlook³⁸, the emerging of substitutes has little effect on the oil and gas industry in the near future. However, such influence cannot be ignored in the long run because there will be one day that the oil and gas is used up. Currently, the commonly recognized substitutes of oil and gas are only used in generating energy such as nuclear power, bio-energy, wind power, coal, solar power and hydroelectricity. Most

³⁸ World Oil Outlook (2012). OPEC. Retrieved from http://www.opec.org/opec_web/en/publications/340.htm in 2013

of the substitutes are limited by government regulation, environmental concerns, and a high barrier to entry, thus they are not going to threaten oil and gas industry within the next decade. The only potential threat could be biomass. However, the efficiency of biomass has yet to be proved to outperform oil and gas.

5. Competitive Rivalry

Judging from the demonstration of above four forces, oil and gas industry is highly profitable with only little threat from potential substitutes and counterparties. However, when categorizing such a huge industrial system into different layers, there is also noticeable competition. In the first layer, huge mining and extracting companies have to compete on the pricing of their product and such competition is the threat from other existing suppliers. Within the first layer, all suppliers are offering identical product, they can always reduce the price to promote the sales and consequently increase the profit margin and market share. Such downward trend on price is forcing suppliers to achieve an agreement on a fixed price. In order to maximize the profit from the given price, mining and extracting companies will have to figure out its own business and operation strategy, thus, the competition appears. It can be explained in the same way in second layer as well. The suppliers in this layer are facing competition on the price from other supporting firms. For example, a transportation company who is doing the distribution managed to lower cost by introducing new technology in storing. This will reduce the price and increase the profit margin. Other suppliers in the same business will have to reduce the price as well to capture as much market share as possible. What's worth mentioning is that, even though with such fierce competition from other suppliers in both layers, the profit margin is still considered to be great because there is steady and strong demand from the buyers in both layers.

Market analysis

Current oil sand business in Alberta

Canada has the second-largest oil reserves in the world, and oil sand is considered an important part. Current oil sands make up a quarter of annual oil production in Canada.³⁹

Within Canada, Alberta is commonly considered to have the richest oil reserves.

According to an Alberta Energy 2010 report, it is notable that Alberta contributes more than 96 percent of the total Canadian oil reserves.⁴⁰ From the chart below, we can see that Alberta holds 169.3 billion barrels of proven oil reserves, ranking third after Saudi Arabia and Venezuela.

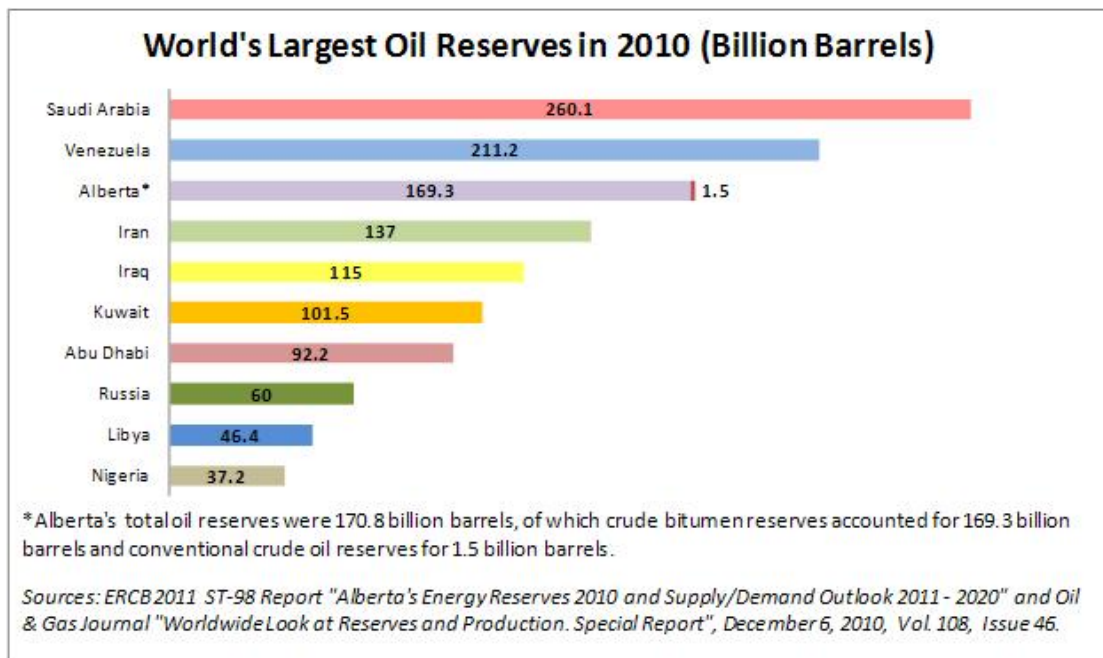


Figure 6 – Source: Alberta Energy⁴¹

³⁹Campion Walsh (October 18, 2007). *Canada's Oil Reserves 2nd Only to Saudi Arabia*. Petroleum World. Retrieved from <http://renew.com/general37/petrol.htm>

⁴⁰World's Largest Oil Reserve in 2011, Facts and Statistics, Alberta Energy. Retrieved from <http://www.energy.alberta.ca/OilSands/791.asp>

⁴¹Ibid

As a matter of fact, almost all of Alberta's proven oil reserves are found in oil sands. According to 2011 statistics from Alberta Energy, oil sands provide 99 percent of the 168.7 billion barrels.⁴²

In publications from the government of Canada about Alberta's oil sands business for yearend 2011, it is stated that Alberta's oil sands reserves are developed mainly by private enterprises⁴³. These companies are regulated by independent agencies and by policies and laws from both federal and provincial governments. The report also points out that with the fast development of technology, raw materials are processed more effectively by oil sands companies and thus the oil sands projects are showing attractive to both domestic and foreign investors. The chart below shows the major players in oil sands business in Canada (mainly in Alberta) and details of the shares owned by foreign investors.⁴⁴

⁴²Economics, Facts and Statistics (n.d). Alberta Energy. Retrieved from <http://www.energy.alberta.ca/OilSands/791.asp>

⁴³Economics Benefits (n.d). Alberta Energy. Retrieved from <http://oilsands.alberta.ca/economicinvestment.html>

⁴⁴Who Benefits? An Investigation of Foreign Investment in the Tar Sand. ForestEthics. Retrieved from http://forestethics.org/sites/forestethics.huang.radicaldesigns.org/files/FEA_TarSands_funding_briefing.pdf

Company Name	Weight of Foreign Shares
Statoil	99.83%
Mocal Energy (owned by JX Holdings)	99.33%
Murphy Oil	99.23%
Royal Dutch Shell	98.49%
Devon Energy	98.44%
ConocoPhillips	97.83%
Petrobank Energy Resources	94.80%
Husky Energy	90.90%
MEG Energy	89.10%
Imperial Oil	88.90%
Nexen	69.90%
Canadian Natural Resources Limited	58.80%
Suncor Energy	56.80%
Canadian Oil Sands	56.80%
Cenovus	54.70%

Figure 7 – Source: ForestEthics

From the figures, it is obvious that most of the major players in the oil sands business are mainly foreign-investor owned.

However, there are still concerns about the current oil sands business in Alberta, Canada.

In National Energy Board (NEB)'s annual reports⁴⁵ analyze two concerns about the current oil sands business⁴⁶. In the report, the first concern is environment-related issues.

⁴⁵National Energy Board (NEB) is an independent federal agency established by Parliament of Canada, which focuses on international and interprovincial aspects of the oil, gas and electric utility industries followed by Canadian regulation.

In 2011, Oil sands production is categorized as fossil fuels. As a matter of fact, fossil fuels are un-renewable in a short time and will produce hazardous emissions as a side effect. Given their great contribution in oil production, oil sands businesses will have to face either limits in production or higher costs. Second, alternatives will emerge with the development of technology. In NEB annual report, it states that Biofuel technology is growing rapidly and aggressively gaining a share of the market⁴⁷. NEB is forecasted that the share of biofuels in transportation-sector energy consumption will triple over the period 2012–2035, from 1.1 per cent to 3.3 per cent.⁴⁸

Why choosing Canada as an investment market

It is mentioned in the above introduction that all three companies have chosen Canada as the ideal foreign investment market. With decades of development, the Canadian oil industry has developed to be a mature yet emerging market with remarkable potential. Despite the challenges facing the Canadian oil industry such as environmental concerns, energy consumption, and lack of corresponding utilities, there are noticeable factors explaining why the three Chinese government-owned companies are aiming at the Canadian oil market at the same time.

1. Canada holds one of the largest oil reserves in the world.

According to data from the Canadian Association of Petroleum Producers, by the end of 2010, crude oil reserves are reported to be 4,118 million barrels, oil sands mining reserves are 34 billion barrels, and natural gas reserves are estimated to be 70.4 trillion cubic

⁴⁶Annual Report (2011).Reports, National Energy Board. Retrieved from<http://www.neb-one.gc.ca/clf-nsi/rpblctn/rprt/nnlrprt/nnlrprt-eng.html#s2011>

⁴⁷Annual Report (2011).Reports, National Energy Board. Retrieved from<http://www.neb-one.gc.ca/clf-nsi/rpblctn/rprt/nnlrprt/nnlrprt-eng.html#s2011>

⁴⁸Ibid

feet.⁴⁹ With such rich holdings and current exploiting ability, Canada is the third largest natural gas producer, sixth largest crude oil producer and fifth largest energy producer in the world.

2. Global demand is increasing.

In World Energy Outlook 2011 – New Policies Scenario, published by the International Energy Agency, it is clearly indicated that the world is going to need more oil supplies.⁵⁰ The global demand is expected to rise by 35 percent by 2035. Also, in World Energy Outlook 2008, IEA predicts that access to conventional petroleum is declining and, as a matter of fact, oil reserves are decreasing faster than ever with such high demand⁵¹. As a result, the supply is going to decrease while the demand is increasing, and the price of energy-generating materials – petroleum – is going to increase. This gives great confidence to investors in the energy industry, and thus the oil industry.

3. Friendly political environment and developed regulation system.

The Canadian government has paid quite a few diplomatic visits to China in recent years, and this is an optimistic sign for Chinese investments in the Canadian market. The CBC news has reported that, in November 2011, Canada's Minister of Natural Resources, Joseph Oliver, visited China and had conversations with the presidents of the boards of CNOOC, CNPC and Sinopec respectively about investment in Canada⁵². Following that, Prime Minister Stephen Harper visited China with five ministers in February 2012. In this visit, investment in the Canadian market was discussed⁵³. The frequent mutual visits

⁴⁹Basic Statistics (2010).Library & Statistics, Canadian Association of Petroleum Products. Retrieved from <http://www.capp.ca/library/statistics/basic/Pages/default.aspx>

⁵⁰World Energy Outlook (2011). IEA. Retrieved from <http://www.iea.org/publications/freepublications/publication/name,20549,en.html>

⁵¹World Energy Outlook (2008). IEA. Retrieved from <http://www.iea.org/publications/freepublications/publication/name,3790,en.html>

⁵²Margo McDiarmid(2011,November 9). China keen market for oil sands, Oliver says. *CBC NEWS*.Retrieved from<http://www.cbc.ca/news/politics/story/2011/11/09/pol-oliver-oil-sands-china.html>. On December 10,2012

⁵³Zhang Yiming(July 30, 2012). *Sinopec, CNPC and CNOOC – Three Petroleum Giants Targeting Canadian Oil Reserve&Market*, CET. Retrieved from http://news.xinhuanet.com/fortune/2012-07/30/c_123492247.htm

between Chinese and Canadian government leaders are making foreign investment grow in an encouraging environment. And it is worth mentioning that the tax and royalty policies in Canada make foreign investors able to compete in a fair and secure atmosphere.⁵⁴

Case analysis – CNOOC acquisition offer to Nexen

Overview

On December 7th, 2012, the Canadian government announced that the deal for Nexen's takeover was permitted.⁵⁵ This means that the biggest foreign investment that a Chinese government-owned company has made so far is granted, and that Canadian oil sands reserves are open for foreign companies.

Nexen Inc., established in 1971, is an upstream oil and gas company responsibly developing energy resources. With headquarters located in Calgary, Nexen has interests in exploration, development and production of assets in the UK North Sea, West Africa, the Gulf of Mexico and Western Canada with three principal businesses: conventional oil and gas, oil sands and shale gas.⁵⁶

The table below shows an overview of this deal.⁵⁷

⁵⁴Ibid

⁵⁵Nexen (n.d). News release. Retrieved from http://www.nexeninc.com/en/AboutUs/MediaCentre/NewsReleases/News/Release.aspx?year=2013&release_id=135183, on March 3, 2013

⁵⁶about Nexen(n.d.). Retrieved from <http://www.nexeninc.com/en/AboutUs.aspx>. On December 9, 2012.

⁵⁷CNOOC Limited Reaches Definitive Agreement to Acquire Nexen Inc. (July 23, 2012). Google Document. Retrieved from https://docs.google.com/viewer?a=v&q=cache:0PdeGdDN8goJ:www.cnooltd.com/encnoocld/tzzgx/yjhtjcl/Presentations/images/2012723984.pdf+CNOOC+definitive+agreement+to&hl=en&gl=ca&pid=bl&srcid=ADGEESjisRkKfdcdZbKK8N8VT4hvx6W9_KnqgxrLjp_TMTCIKFqq41pPgQJZn60bA-OntFLZtAJ2-qFx2H7GPZ8zt86H_Th84zn8GaAXx34L1zvc_nwczzzxo_0MRR2c0j5OSpO5w0&sig=AHIEtbQea-rUhw4Wsc1REqFE0F9YBMshg

Structure	Acquire 100% of the outstanding common and preferred shares of Nexen
	Structured as a Plan of Agreement
Consideration	Approximately US\$15.1 bn ⁵⁸ of total cash consideration paid for Nexen's common and preferred shares
	Cash consideration of US\$27.50 per common share of Nexen, representing a 61% premium on the closing price of July 20, 2012
	Cash consideration of C\$26.00 per preferred share of Nexen
	Nexen's current debt of approximately US\$4.3 bn will remain outstanding
Financing	Plan to fund the acquisition from existing cash and external financing
Other Information	Unanimous recommendation by Nexen and CNOOC limited Boards of Directors
	Transaction is subject to customary regulatory approvals, 2/3 vote cast by Nexen common shareholders and Canadian court approval
Timing	Nexen shareholder meeting to be held in late Q3, 2012
	Closing expected in Q4, 2012

Figure 8 – Source: Google Document

Analysis

The following analysis will expand on two major aspects of the deal. Firstly, it will specify the benefit and opportunity transferred from Nexen to CNOOC Limited, and secondly, it will state the challenge and risk associated with this deal.

1. Benefit and opportunity
 - 1) Expansion in production and reserves

Nexen offers CNOOC Limited the opportunity to expand its production and reserve base in many of its existing areas of operation. According to Jonathan Ratner, Bank of

⁵⁸Value based on basic shares, options and preferred shares outstanding as at June 30, 2012; CAD values converted to USD at 0.9887 (July 20, 2012 Bank of Canada noon rate)

America Merrill Lynch is forecasting that CNOOC's production and proved reserves will expand by 28 percent and 22 percent respectively.⁵⁹ This is clearly displayed below in the allocation of operation and proved reserve for CNOOC Limited, Nexen and the overlapped assets.

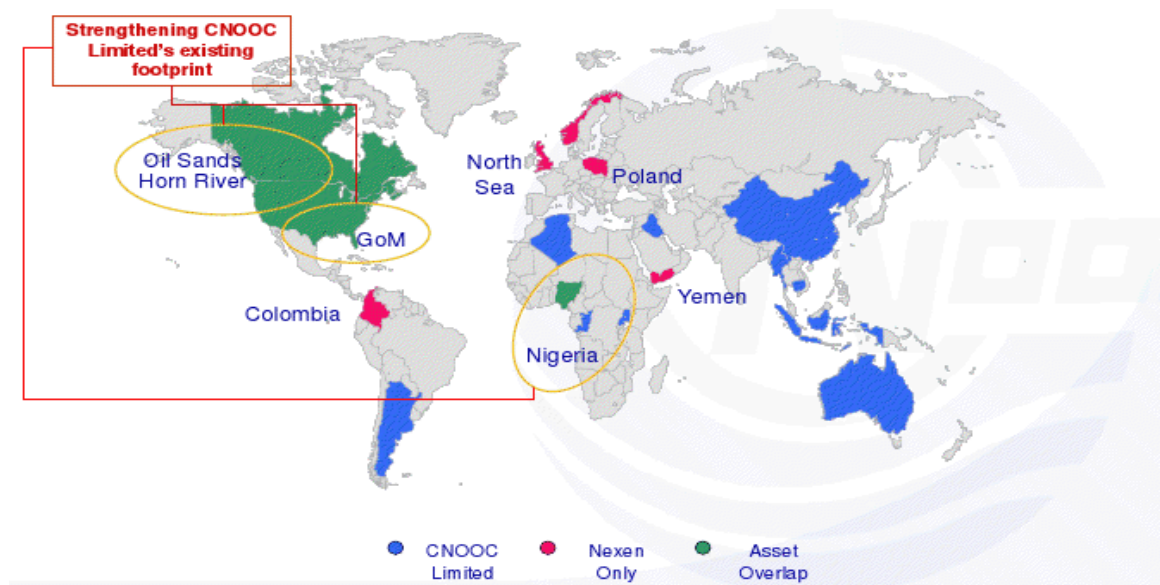


Figure 9 – Source: Google Document⁶⁰

2) Improving product and expanding operation area

Nexen offers three main businesses with a great range of operation all over the world⁶¹:

- Conventional oil and gas – Mainly in UK North Sea, West Africa and Gulf of Mexico
- Oil sands – Mainly in Canada
- Shale gas – British Columbia, Canada.

⁵⁹Ratners, Jonathan (December 12, 2010). *Nexen deal may not give CNOOC earnings boost*. Financial Post. Retrieved from <http://business.financialpost.com/2012/12/10/nexen-deal-may-not-give-cnooc-earnings-boost/>

⁶⁰CNOOC Limited Reaches Definitive Agreement to Acquire Nexen Inc. (July 23, 2012). Google Document. Retrieved from https://docs.google.com/viewer?a=v&q=cache:0PdeGdDN8goJ:www.cnoocLtd.com/encnoocLtd/tzzgx/vjhtjcl/Presentations/images/2012723984.pdf+CNOOC+definitive+agreement+to&hl=en&gl=ca&pid=bl&srcid=ADGEEsJisRkKfdcdZbKK8N8VT4hvx6W9_KnqgxBrLjp_TMTCIKFqq41pPgQJZn60bA-OntFLZtJAJ2-qFx2H7GPZ8zt86H_Th84zn8GaAXx34L1zvc_nwczzzxo_0MRR2c0j5OSpO5w0&sig=AHIEtbQea-rRUhw4Wsc1REqFE0F9YBMshg

⁶¹About Nexen(n.d.). Retrieved from <http://www.nexeninc.com/en/AboutUs.aspx>. On December 9, 2012.

With Nexen's current businesses, CNOOC Limited's product portfolio will be greatly diversified with multiple entries into the main reserves being activated. In addition, given the fact that nearly 90 percent of the reserves are located in OECD countries with established regulations and attractive fiscal regimes, the stability of operation and production will also be guaranteed.

3) Introducing new technology

Nexen offers CNOOC Limited the technology for developing shale gas. As a matter of fact, such technology is not yet available for any Chinese oil companies.⁶²

2. Challenge & risk

1) Financial burden

Just after the offer was submitted to Nexen, CNOOC Limited slashed its dividend by 40% in order to save cash for the acquisition⁶³. In the meantime, it was clearly specified in the declaration that Nexen's total debt worth \$4.3 billion would remain outstanding⁶⁴. Thus, CNOOC Limited would be increasing its outstanding debt by 3.54 percent (Total debt in 2011 was \$121.408 billion)⁶⁵

2) Potential financial risk from Nexen

Looking through the current 3 years' financial statements,⁶⁶ it is noticed that the current ratio has decreased from 1.71 in year 2009 to 1.08 in 2011. This indicates that the ability

⁶²Hall,S., Welsch,E.,&Dezember,R.(2012, July 24). China Push in Canada Is Biggest Foreign Buy. *Wall street Journal*. Retrieved from <http://online.wsj.com/article/SB10000872396390443437504577544470741886332.html>

⁶³Kin Cheung (August 21, 2012) CNOOC cuts dividend to save cash for Nexen takeover. *CBC News*. Retrieved from <http://www.cbc.ca/news/business/story/2012/08/21/cnooc-nexen-dividend.html>

⁶⁴CNOOC Limited Enters Into Definitive Agreement to Acquire Nexen Inc.. 2012 Press Release. CNOOC. Retrieved from <http://www.cnooc ltd.com/encnooc ltd/newszx/news/2012/2062.shtml>

⁶⁵Consolidated Income Statement (2011). Financial Data, CNOOC Limited. Retrieved from <http://www.cnooc ltd.com/encnooc ltd/tzzgx/cwsj/default.shtml>

⁶⁶Consolidated Balance Sheet (2011). Financial Data, CNOOC Limited. Retrieved from <http://www.cnooc ltd.com/encnooc ltd/tzzgx/cwsj/default.shtml>

to pay short-term debt has weakened during these 3 years. There are also some ratios/figures that might be of concern CNOOC Limited

Year Description	2009	2010	2011
Current Assets (in millions)	5,551	4,404	3,691
Total Assets (in millions)	20,955	19,647	20,068
Current Liabilities (in millions)	3,252	3,318	3,428
Equity (in millions)	6,787	7,814	8,373
Total Liabilities (in millions)	14,168	11,833	11,695
Non-Current Liabilities (in millions)	10,916	8,515	8,267
Debt/Asset	67.61%	60.23%	58.28%
Debt/Equity	2.09	1.51	1.40
Current Ratio	1.71	1.33	1.08
Current Liabilities/Non-Current Liabilities	29.79%	38.97%	41.47%
Current Liabilities/Total Liabilities	22.95%	28.04%	29.31%

Figure 10 – Source: CNOOC Limited

3) Potential operation risk from Nexen

It is stated in Nexen's annual report of 2011 that oil is the major product of the company.⁶⁷ So, operations of the company will be treated mainly related to oil production. Judging from the most recent five years' production figures, we can see a diminishing trend as per the chart below.

⁶⁷ Annual Report (2011). Annual Report and Filings, Nexen. Retrieved from <http://www.nexeninc.com/en/Investors/AnnualReports.aspx>

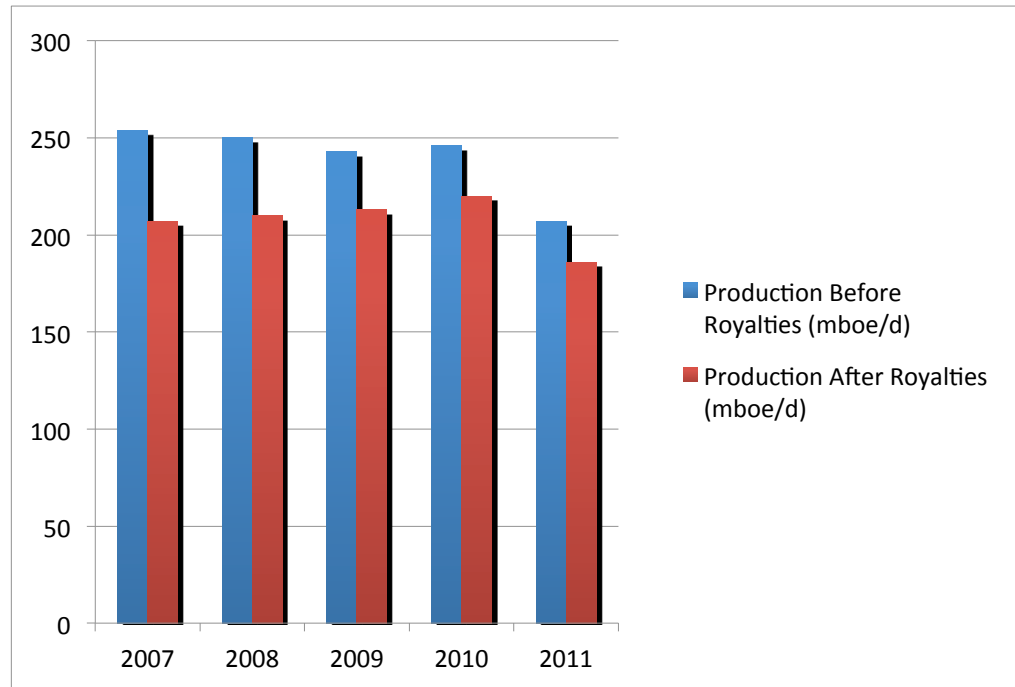


Figure 11 – Source: Nexen

4) Cultural difference

There are concerns that the differences in company background may present obstacles for the transaction. The potential differences are:

- Language difference
- Market location difference
- Company values difference

5) Regulation block

It can be seen from Appendix 3, the timeline of the Nexen takeover deal, that the deadline for the final call was postponed twice for a total of 60 days. In addition to that, along with the approval of the deal, the guidelines for foreign investment in Canada have been revised. This explains that regulatory concerns are somehow one of the deciding factors for an international transaction such as this.

Comparison Analysis

CNOOC vs. Sinopec

In 2011, CNOOC, the smallest of China's three major oil companies, expanded the scale of its upstream businesses by increasing overseas investment. This change of operation strategy has increased its net profit to approach that of the second-largest oil company in China – Sinopec⁶⁸. At the end of 2011, the net profit of Sinopec declined 1.4 percent while CNOOC managed to increase its own by 29.1 percent.⁶⁹ In 2012, the net profit of CNOOC exceeded Sinopec by \$33 million (200 million Yuan).⁷⁰

Between these two competitors in the oil and gas industry, there are similarities and also differences in respect of foreign investment.

Similarities

1. Government Policy

Both CNOOC and Sinopec are owned by the Chinese government. As a result, they will be facing the same policies and regulations made by the government. When it comes to foreign investment, they have to go through the National Energy Commission (NEC)'s inspections on details of the proposed contract.⁷¹

2. Business Strategy

Even though short-term business strategies may differ between the two companies, the long-term strategies all follow the same path. This is because of the factors below:

⁶⁷ Li, C.L. (2012, December 10). After this acquisition of Nexen, the oil-production ability of CNOOC is approaching that of Sinopec. *Securities Daily*. Retrieved from <http://finance.yinet.com/3.1/1212/10/7671626.html>, on December 11, 2012

⁶⁹ CNPC, Sinopec to Expand Profits of New Source of CNOOC Net Profit Approaching Sinopec (2012, April 4). *Agile-news*. Retrieved from <http://www.ciooe.com.cn/2013/en/News/IndustrialNews/468.html>, on December 10, 2012

⁷⁰ The seating rearrangement of three barrels of oil: CNOOC profit super Sinopec (2013, March 27). *Global Entrepreneur magazine*. Retrieved from <http://finance.kankanews.com/magazine/2013-03-27/901002.shtml>, on April 1, 2013

⁷¹ Bo, Zh, Y., (2010, February 5). China's new national energy commission: policy implications commission.eai background brief (No. 504). Retrieved from <http://www.google.ca/url?sa=t&rct=j&q=&esrc=s&source=web&cd=3&ved=0CEYQFjAC&url=http%3A%2F%2Fwww.eai.nus.edu.sg%2FBB504.pdf&ei=SFh9UeCWKOb14AOF6YHIDw&usq=AFQjCNEXbV-8lPhqSrSjvn0uQWQWpq3Qwg&sig2=nrfXEpHcz-z2Cfd8xzFp6w&bvm=bv.45645796,d.dmg>

- There is a general development plan announced by the Chinese government that is called the 12th 5-year-plan⁷². It is clearly specified in this policy that within the 12th 5-year period (2011–2015), the energy industry has to improve the efficiency of power generation and expand the overseas market in order to meet the increasing demand of energy.
- The proposal to take over Nexen was initially drafted by the former CEO of CNOOC, Fu, Chengyu. Mr Fu is now the CEO of Sinopec, and it is generally believed that Fu will carry on the same mode as he suggested for CNOOC when he manages Sinopec⁷³.

3. Financial situation

Both companies are performing steadily in the financial markets, whereby they are able to get continuous financing from investors. Also, given that the domestic demand for oil and gas products is increasing, general operational income is guaranteed. The steady inflow of money makes it possible for both companies to seek expanded business in foreign countries.

Differences

1. Business mode

CNOOC was founded to imitate the western business model, while Sinopec was to follow the traditional routine of a Chinese government-owned company.⁷⁴ That is to say that, when deciding on overseas investment plans, CNOOC will take bold and aggressive actions such as taking over, acquisition and direct buyout. In contrast, Sinopec will

⁷²Lewis, J.,(2011, March).Energy and Climate Goals of China's 12th Five-Year Plan. Retrieved from <http://www.c2es.org/international/key-country-policies/china/energy-climate-goals-twelfth-five-year-plan>

⁷³Sinopec overseas investment followed Mr. Fu's mode (2012, September 24), Chinese petroleum and petrochemical. Retrieved from http://www.360doc.com/content/12/0930/17/4802652_238919308.shtml, on December 8, 2012

⁷⁴About us (n.d.). CNOOC. Retrieved from <http://www.cnooltd.com/encnooltd/aboutus/default.shtml>

behave conservatively with actions such as merging, franchising and holding partial shares of foreign companies.⁷⁵

2. Market focus

CNOOC focuses more on overseas markets, and thus the company will have much more practical experience. Sinopec's business is in the domestic market, mainly middle and downstream. In addition, Sinopec has a longer company history, which creates more burdens on its cost of staffing and operations than CNOOC faces. So, when making decisions on investment, regardless of whether overseas or not, it is much more complicated for Sinopec.

Investment Capital – Generally speaking, CNOOC has more capital invested in Canada than Sinopec.⁷⁶⁷⁷

Options and Alternatives

In this section, the report is going to list 3 alternatives for Sinopec with regard to investment in the Canadian oil and gas industry.

1. Takeover

There are several factors for Sinopec to consider before taking over a Canadian oil and gas company. Firstly, the target company should be focusing on upstream business, so that the takeover will strengthen the integrity of Sinopec's upstream to downstream business model. Secondly, the target company should be in financial distress. The Canadian government would prefer risky business entities to be taken over to moderate the general business risk, and it could also benefit Sinopec for less cost and higher possibilities. Last but not least, it could be very tricky for Sinopec to pick the target

⁷⁵ Our company (n.d). Sinopec. Retrieved from http://english.sinopec.com/about_sinopec/our_company/20100328/8532.shtml

⁷⁶ Sinopec Canadian invested capital is approximately \$8.45 Billion; CNOOC Canadian invested capital is approximately \$17.322 billion

⁷⁷ See appendix 2

company. After CNOOC's takeover of Nexen, the green light on international takeover with big capital is expected to be limited in Canada, even prohibited by the government.⁷⁸ As a result, companies with small capital and less effect on both the local and federal economies are recommended.

2. Joint Venture

Compared with a takeover, choosing the form of a joint venture would make it easier for Sinopec to realize foreign investment. This form of corporation would not only strengthen Sinopec's advantage in its chosen field but also strengthen the weak parts of its business. Kitimat Clean Ltd, an upstream oil and gas company, is privately owned and constructing a project in British Columbia, Canada. Financed by the Industrial and Commercial Bank of China, Kitimat Clean Ltd will be able to start a state-of-the-art world-scale oil-refinery project to offer upstream products to the Asian market. This project is considered an ideal target for Sinopec to start a joint venture in Canada. With its expertise in the downstream oil and gas business, Sinopec could also be a beneficial partner for Kitimat Clean Ltd⁷⁹ to expand its Asian market. In addition to that, such a project would create more jobs in BC as well as creating more tax income for the government. Thus, this is sending an advantageous signal to Sinopec.

3. Acquiring Equity/Interest

By acquiring equity holdings, Sinopec could participate in the distribution of both dividends and capital gains without involving itself in operations. In this respect, it is recommended for Sinopec to increase its holdings in the companies it has already invested in. There are several benefits for Sinopec to conduct such a pattern of

⁷⁸ Andy Radia (December 7, 2012). CNOOC-Nexen deal approved by Harper government; opposition parties react. *Yahoo News*. Retrieved from <http://ca.news.yahoo.com/blogs/canada-politics/harper-government-approves-nexen-deal-opposition-parties-react-005826808.html>

⁷⁹ Kitimat Clean Ltd (n.d). Retrieved from <http://kitimatclean.ca/>, on March 20, 2013

investment. Firstly, Sinopec is familiar with the operations status and profit-cost structure of the target company⁸⁰. Thus, increasing the investment would have less risk in profitability. Secondly, increasing holdings in such target companies is preferred by the authorities and regulator because this will bring in tax revenue to both local and federal government. Thirdly, investing in such companies would greatly save a lot of cost on negotiation and upfront activities such as research, inspection and the legal process. Syncrude Canada Ltd, an upstream oil and gas company, is one of Canada's largest producers of crude oil from oil sands⁸¹. Currently, according to Appendix 2, Sinopec holds 9 percent of its outstanding shares. It would be beneficial for Sinopec to increase its holdings in Syncrude Canada Ltd because of its expertise in oil sands business in Alberta, Canada.

Recommendation

Based on the above listed options, this report is going to state the recommendation for Sinopec in its investment strategy in Canadian oil and gas industry. The preferred method to take is the above mentioned option 3 – Acquiring equity shares/interest.

There are 4 phases involved in this business plan:

Phase 1: February, 2013 to May, 2013

Sinopec finishes the financing for overseas investment.

⁸⁰ See Appendix 2

⁸¹ About Syncrude. Syncrude. Retrieved from <http://www.syncrude.ca/users/folder.asp?FolderID=5617>

On February 24th, 2013, Sinopec started to finance by placing additional shares in Hong Kong stock market and managed to retain 24 billion HKD (\$3.12 billion) by the end of May 2013⁸².

Phase 2: End of May, 2013 to January, 2014

Sinopec invests in three overseas oil projects in different foreign markets⁸³. One of them is to offer the purchase of \$1 billion worth of interest in Syncrude Canada Ltd^{84,85}.

Phase 3: January, 2014 to Beginning of 2015

Sinopec negotiates with Canadian government on the agreement and approval of this offer.

Phase 4: Beginning of 2015 to End of 2015

After finalizing this investment, Sinopec will meet the 12th five-year plan and the total overseas output of crude oil is forecasted to be 50 million ton per year by the end of 2015⁸⁶.

Conclusion

This report presents the current situation of the Chinese oil and gas industry and demonstrates the fact of unbalanced demand-supply of oil and gas products in the Chinese domestic market. After a detailed analysis of the top three Chinese government-owned oil and gas companies' investment in the Canadian oil sands market, the report analyzes the case of CNOOC taking over Nexen. With the comparison between CNOOC and Sinopec, the report lists the available foreign-investment options in the Canadian oil and gas market for Sinopec at the end.

⁸² Yu, N.,(2013 April 1) Sinopec start to injecting money. \$3 Billion overseas investment is ready to launch. *New Times*. Retrieved from <http://finance.qq.com/a/20130401/003898.htm>

⁸³ Ibid

⁸⁴ Investors (n.d.). Synrude. Retrieved from <http://www.syncrude./users/folder.asp?FolderID=5626>

⁸⁵ Canadian Oil Sands (partnership) has 36.74 percent of Syncrude project.

⁸⁶ Sinopec new overseas investment strategy (2011, December10). *Xihua News*. Retrieved from http://news.xinhuanet.com/energy/2011-12/10/c_122401549_3.htm

Abbreviations and Acronyms

BBL=billions of barrels

bcm=billion cubic metres

boe=barrel of oil equivalent

CNOOC=China National Offshore Oil Corporation

CNPC=China National Petroleum Corp

DOE=Department of Energy

EIA=Energy Information Administration

EOR=enhanced oil recovery

FRS=Financial Reporting System

GJ/t=Giga Joule per tonne

IEA=International Energy Agency

Kb/d=thousands of barrels per day

LNG=liquefied natural gas

Mb/d (mbpd) =millions of barrels per day

MMS=Mineral Management Service

NAS=National Academy of Science

NEB= National Energy Board

NEC= National Energy Commission

NGL=natural gas liquids

O&G - journal=Oil and Gas - journal

OGP=International Association for Oil and Gas Producers

OPEC=Organization of Petroleum Exporting Countries

OWH=Other Western Hemisphere

R/P-ratio=reserve over production ratio

Sinopec=China Petroleum & Chemical Group (Sinopec)

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Appendix 1: All the overseas projects of Chinese oil companies, 2002 to 2010.

Date	Company	Assets	Share	Deal size (billion USD)
Dec-10	Sinopec	Acquired 18% of Chevron's Gendalo-Gehem deep water gas project in Indonesia.	18%	0.68
Nov-10	CNOOC	Acquired 60% of Pan America Energy from BP under Bidas in which CNOOC has 50% share.	60%	2.47
Nov-10	CNOOC	Purchase 33.3% interest in Chesapeake's 600,000 net acres in the Eagle Ford Shale.	33%	2.16
Oct-10	CNOOC	Purchase 2/3 of Tullow Oil's stake in three blocks in Uganda with Total.	67%	Possible more than 1
Oct-10	Sinopec	Purchased 40% stake of Brazilian subsidiary of Spanish oil company Repsol.	40%	7.1
May-10	China Investment Corp (CIC)	Will hold 45% of Canada's Penn West Energy Trust to jointly develop its bitumen assets in the Peace River region of Alberta, Canada.	45%	0.8
May-10	CNPC	Purchased 35% stake of Shell's wholly owned subsidiary, Syria Petroleum Development BV (SPD). SPD owns three production licences in Syria covering 40 oil fields with 23 kb/d output in 2009.	35%	Reported 1.2-1.5
May-10	Sinochem	Purchased Statoil's 40% stake in Brazil's Peregrino Oilfield. Statoil will still retain 60% share and remain as the field operator.	40%	3.07
Apr-10	Sinopec	Purchased 9.03% in Canadian oil sands company Syncrude from ConocoPhillips. Total is the partner that holds 50%.	50%	4.675
Mar-10	CNPC / PetroChina and Shell	Joint bid for 100% share of Arrow Energy, Australia-based coalbed methane (CBM) producer.		3.13 jointly
Mar-10	CNOOC	Purchased 50% stake in the Argentinean oil company Bidas Corp., which has oil and gas exploitation operations in Argentina, Bolivia and Chile.	50%	3.1
Oct-09	CNOOC	Purchased partial share of Norwegian Statoil's US assets in deepwater areas of Gulf of Mexico.		0.1

Oct-09	CIC	Purchased 45% stake in Nobel Oil Group to fund Russian expansion plans.	45%	0.3
Sep-09	CIC	Purchased 11% stake in KMG by purchasing global depository receipts.	11%	0.939
Sep-09	Xinjiang Guanghui Investment	Purchased Kazakhstan TBM's 49% share to jointly develop Zaysan block in eastern Kazakhstan.		0.3
Sep-09	CNPC / PetroChina	Purchased 60% of Athabasca Oil Sands Corp's Mackay River and Dover oil sands projects in Alberta, Canada.	60%	1.9
Aug-09	Sinochem	Purchased 100% Emerald for assets in Syria and Colombia.	100%	0.878
Jun-09	CNPC / PetroChina	Purchased 96% of SPC (Singapore).	96%	2
Jun-09	Sinopec	Purchased 100% of Addax.	100%	8.8
Apr-09	CNPC and KMG	Purchased MMG in Kazakhstan assets with KMG.	100%	1.7 CNPC ; 3.3 total
2009	CNOOC and Sinopec	Purchased 20% stake for block 32 (Angola) from Marathon Oil.	20%	1.3
2008	Sinopec	Purchased 100% of Tanganyika for assets in Syria.	100%	1.8
2008	CNOOC	Purchased 100% of Awilco.	100%	2.5
2008	Sinopec	Purchased 60% of Australia's AED oil for assets in Australia.	60%	0.561
2008	CNOOC	Purchased 50% interest in Husky (Madura) Energy's assets in Indonesia.	55%	0.125
2008	Sinochem	Purchased 100% Soco Yemen for assets in Yemen.	100%	0.456
2006	CNOOC	Purchased 45% interest of OML 130 from South Atlantic Petroleum Ltd in Nigeria.	45%	2.3
2006	CNPC / PetroChina	Purchased 100% of Block H in Chad from Swiss company Cliveden.	100%	0.48
2006	CNPC and Sinopec	Purchased 100% Encana for oil and pipeline interest in Ecuador.	100%	1.47
2006	Sinopec	Purchased 97% of Udmurtneft for assets in Russia, then sold 51% to Rosneft.	46%	1.7 approx
2006	CITIC Resources Holdings	Purchased 50% of JSC Karazhanbasmunai for assets in Kazakhstan.	50%	0.95

2006	CITIC Resources Holdings	Purchased 51% in Seram block in Indonesia through acquiring the assets from KUFOEC.	51%	0.0975
2006	Sinopec	Purchased oil sands projects by acquiring 50% of Ominex de Colombia with ONGC.	25%	0.4
2005	Sinopec	Purchased 50% interest in Northern Lights oil sands project.	50%	.05 approx
2005	CNPC (50%) and ONGC	Purchased 38% of Al Furat Production Company from PetroCanada.	19%	0.574
2005	CNOOC	Purchased 14.52% stake in MEG Energy for oil sand business.	15%	0.22
2004	CNPC	Purchased block 18 (Angola) from Angolan government when Shell exited Angola.	50%	2
2004	Sinopec	Purchased petroleum assets from First International Oil Corporation in Kazakhstan.	100%	0.153
2003	CNOOC	Purchased 16.93% interest of Tangguh LNG project from BP and then sold 3.06% to Talisman.	14%	0.34
2003	Sinochem	Purchased 100% Atlantis from Norwegian Petroleum Geo-Service (PGS).	100%	0.105
2003	Sinochem	Purchased 14% interest in block 16 in Ecuador from ConocoPhillips.	14%	0.1
2002	CNPC / PetroChina	Purchased Devon Energy Corporation for six blocks in Indonesia.	100%	0.585
2002	CNOOC	Purchased YPF Repsol's upstream assets (Southeast Sumatra etc.) in Indonesia.		0.585

Source: Jiang, J., & Sinton, J. (2011, February). Overseas Investments By Chinese National Oil Companies. Retrieved from http://www.iea.org/publications/freepublications/publication/overseas_china.pdf, in December 10, 2012

Appendix 2: CNPC, SINEPEC, and CNOOC major investment in Canada (by Company)

Date	Company	Assets	Share	Deal size (billion USD)
1993	CNPC	Acquired operating interest in North Twining Oilfield and equity of the natural gas processing plant in Alberta.	11%	
2009	CNPC	Acquired eleven leases auctioned by province of Alberta.		
Dec-12	CNPC / PetroChina	Encana agreed to sell non-controlling interest in about 180,000 hectares in the Duvernay shale to Phoenix Duvernay Gas, a wholly owned subsidiary of PetroChina	50%	2.18
Feb-12	CNPC / PetroChina	PetroChina purchased stake in Shell Oil's Groundbirch shale gas project in northeastern B.C.	20%	1
Jan-12	CNPC / PetroChina	Canada's Athabasca Oil Sands Corp announced that it sold the remaining interest in the MacKay River oil sands project to a subsidiary of PetroChina	40%	0.68
Nov-11	CNPC / PetroChina	Canadian regulators previously authorized PetroChina to invest in the project.	60%	1.9 CAD
Nov-11	CNPC	CNPC reached an agreement with Royal Dutch Shell for "integrated cooperation" on oil and gas projects in Canada.		
Feb-11	CNPC / PetroChina	PetroChina International Investment Company Limited, a subsidiary of CNPC, signed an agreement with Encana Corporation for acquiring interest in Encana's Cutbank Ridge business assets in British Columbia and Alberta.	50%	5.4 CAD
Aug-09	CNPC	CNPC purchased shares of the MacKay River and Dover oil sands projects of the Athabasca Corporation in north-eastern Alberta.	60%	1.9
Jul-12	Sinopec	Agreed to buy a 49% stake in Talisman Energy's North Sea operations for \$1.5 billion.	49%	1.5
Dec-11	Sinopec	Bought Canadian oil and gas firm Daylight Energy.	100%	2.2 CAD
Jan-11	Sinopec	Joined a group to invest in Enbridge Inc.'s proposed \$5.5 billion pipeline to Canada's West Coast.		More than 0.1

Aug-10	Sinopec	Bought some of ConocoPhillips' interest in the Syncrude Canada Ltd project in Canada's oil sands for \$4.65 billion, marking one of the Asian country's largest investments ever in North America.	9%	4.65
Jun-09	Sinopec	Announced to purchase Canada-based Addax Petroleum Corp, which is engaged in oil and gas businesses in Africa and selected countries in the Middle East.	100%	
2009	Sinopec	Bought stake in Northern Lights Partnership.	10%	
Sep-08	Sinopec	Took over all the shares of the Canadian-listed Tanganyika, a Canada-based oil and gas company focused around properties in Syria.	100%	
2005	Sinopec / SinoCanada	Signed an agreement with Synenco to jointly develop the Northern Lights Project on oil sands exploration in the Athabasca region of Alberta.	50%	
Dec-12	CNOOC	The acquisition of Canadian oil producer Nexen Inc. was approved by the Canadian government, marking the biggest acquisition to date by an Asian company in Canada.	100%	15.1
Jul-11	CNOOC	Announced that it had offered to buy Opti Canada Inc., the Calgary-based oil sands producer.	100%	2.1
Jun-11	CNOOC	Made an investment in Northern Cross towards exploration at Eagle Plain.		
2009	CNOOC	CNOOC and the Canadian Husky Energy Company started to jointly develop the natural gas exploration projects in the South China Sea.		
2005	CNOOC	Purchased shares of MEG, a Canadian oil sands business company based in Calgary.	17%	0.122

Source: Jiang, J., & Sinton, J. (2011, February). Overseas Investments By Chinese National Oil Companies. Retrieved from http://www.iea.org/publications/freepublications/publication/overseas_china.pdf, on December 10, 2012

Appendix 3: Timeline for CNOOC acquisition of Nexen⁸⁷

July 23rd, 2012 – Nexen announces its agreement with CNOOC's takeover offer with a value of \$15.1 billion.

Aug 21st, 2012 – CNOOC slashes its dividend payment by 40% to save cash for the takeover.

September 20th, 2012 – Nexen shareholders vote in favour of the CNOOC takeover.

October 11th, 2012 – Ottawa extends the deadline to review the Nexen takeover by 30 days.

November 2nd, 2012 – Ottawa extends the deadline for decision on Nexen's takeover by 30 days.

December 7th, 2012 – Canadian government announces permission for CNOOC's takeover, with new guidelines for foreign investment.

⁸⁷ Sorensen, C., (2012, December 7). Nexen and Progress Energy takeovers timeline. MacLean's. Retrieved from <http://www2.macleans.ca/2012/12/07/nexen-and-progress-energy-takeovers-timeline>, on December 11, 2012