

China, energy and global expansion: new investments in Argentina's oil industry



By **OPSur**.- Over the recent years China has begun an accelerated process of urbanization. Being the most populated country in the world -1.325 million habitants-, it's been a priority the stimulation and consolidation of its internal market. Since 2009, it's the principal market of automobiles and cellphones, 157 million people are "middle class", enjoying the consumption of the modern world. For more than 10 years its economy has grown 10% annually, it's expected that China's PBI will be bigger that the US's in 2016. It is the biggest exporter, second economic and industrial power. The amount of energy needed for these rapid transformations has grown accordingly. Between 1980 and 2008 it has increased over 400%, becoming the world's top demander.

In 2008, the Asian's country energetic matrix had fossil fuels as its principal backbone: carbon (71%), oil (19%) and gas (3%) – this last one was behind hydroelectric power. Since 2009 it's the second biggest oil importer, nevertheless over the past decade an exporter. Even though the international economic crisis set a decrease of the oil market flow, Chinese imports maintained the current global interchanges. The International Energy Agency (IEA) affirms that the internal oil production is at its peak; therefore, all new demand has to come from foreign resources. In 2009 more than half of its oil consumption was provided by foreign markets, with an increase of 14% over the previous year, the IEA predicts that for 2030 79% of the oil supply will come from wells outside China.

The control of natural resources has been a priority of China's foreign policies. Michael T. Klare says that: "Because energy is tied to so many aspects of the global economy, and because doubts are growing about the future availability of oil and other vital fuels, the decisions China makes regarding its energy portfolio will have far-reaching consequences. As the leading player in the global energy market, China will significantly determine not only the prices we will be paying for critical fuels but also the type of energy systems we will come to rely on. More importantly, China's decisions on energy preferences will largely determine whether China and the United States can avoid becoming embroiled in a global struggle over imported oil and whether the world will escape catastrophic climate change" (Klare, 2010: s/n).

Transnational state-owned companies: increasing the supply of commodities

By the beginning of the XXI century Chinese companies started a rally over the rest of the world, as a governmental decision plus the implementation of subsidies. For years they were protected from foreign competition, at the same time the government forced alliances with transnationals in

the country in order to strengthen their technical and management abilities. In 2009 three, all state-owned, Chinese companies were among the top ten worldwide. Nevertheless, the priorities over which companies can receive benefits from its global expansion are clear: acquisition of natural resources, infrastructure and manufactures that mean the importation of Chinese technology, as well as research and development that strengthens Chinese companies' competitiveness. The results were quick and efficient: in 2009, it was the fifth investor worldwide. Until that year, Asia had accumulated 40% of the investments, developed countries 38%, Africa 18% and Latin America 4%. Last year has been a breaking point in the distribution of Chinese investments. More than half of the capital found Latin America as target, and 92% of it was directed to natural resources.

Studying the recent evolution of Foreign Direct Investment (FDI) in Latin America, the UN's Economic Commission for Latin America says that the increase –which is an historic record- has been directed over some limited sectors of the economy: natural resources accumulated over 43%, ten points increase over 2005-2009 period. The organism establishes that there is an increment of commodities oriented sectors of the FDI. Three were related to hydrocarbon industry, among the top five transactions. Two of them related to Chinese companies (Sinopec and CNOOC) and a joint-venture commanded by an Indian company. The increment of the commodities sectors for exportation in Latin America is also seen in another study of the organism: in the Andean Community the primary exports increased from 81% in 2008 to 82.3% in 2009; at the Mercosur went from 59.8% to 63.1% in the same years.

The FDI was the most used tool to control natural resources, with complementary long-term loans for resources. Examples of this last one can be found with oil in Venezuela and mining resources in Chile.

Argentina's new oil scenario

In 2010, thanks to the recent investments, China was the first investor and second commercial partner of Argentina. Even though there were numerous investments –mining, manufactures, services, agribusiness, etc.-, one highlighted over the others; the 50% acquisition of Bidas by CNOOC. Bidas belonged to the Argentinean family Bulgheroni and along British Petroleum controlled an important company, considering that the country is a low hydrocarbon producer, Pan American Energy. Other investments worth mentioning are, on the one hand, the bidding of over 300 thousand hectares for soy and agribusiness in general, and on the other, the repairing of a railway that covers more than a half of the country having the objective of taking goods to sea-ports.

CNOOC and new acquisitions

China National Offshore Oil Company is the third hydrocarbon company in China, behind China National Petroleum Company and Sinopec, and it specializes in offshore exploration and

extraction. In 2010, its two most important investments were in Argentina and in USA, this last one marks the in the development of shale oil and shale gas.

In 2010 the production increased by 44.4% and it is expected that for 2015 33% of it will come from foreign exploitations -which nowadays provide around 20%. It has investments mainly in the Chinese Sea, but is present in Indonesia, Australia, Nigeria, Iraq, USA and Argentina. The investments in Argentina were seen as strategic in a regional perspective.

In March 2010 the announcement of the acquisition of 50% over Bidas took place. Among the favorable aspects of the operation CNOOC stated: the recent discoveries in Brazil, the record in 2008 of drilled wells, the potential access to big reserves, the positive response of key actors in recent bidding rounds and, finally, the favorable environment for business due to a stable macroeconomic and political profile.

Argentina is particularly interesting because of public policies that favor investments, such as *Gas Plus* and *Petróleo Plus* –higher prices of hydrocarbons produced in new areas. The establishment of an alliance with a local actor was seen as strategic for the success of the investment. Bidas was seen as a complement to CNOOC due to its experience in onshore activities and was, as well, a unique opportunity to access Latin-American market.

In November of 2010 Bidas bought BP's share (60%) of PAE, the British were eager to sell due to the high costs of New Mexico's spill. The final result was the control of PAE in equal proportions of the Argentinian and the Chinese group. Among others, the company has the control of the mayor oil area in the country, Cerro Dragón, in Chubut province. In 2007, months after the transfer from national to provincial control of the resources, Chubut and PAE signed an agreement that extended for 40 years the operation. In those times, numerous organizations denounced the maneuver as illegal and illegitimate, which compromised a strategic resource for almost no real income to the province. Among others, these pointed out that reserves were undermined; there was no strategic policy towards water consumption and no clear compromise over the generation of jobs. This agreement also contemplated the exploration of offshore areas. The San Jorge basin is the only one that is currently exporting crude oil, when, paradoxically, imports of hydrocarbons are increasing.

In February of 2011 PAE bought Exxon-Mobil's subsidiary, Esso, as it redirects investments onto shale gas activities. Its main business was downstream sector (refinery, commercialization, oil stations, etc.) in Argentina, Uruguay and Paraguay. With this maneuver PAE accomplishes the objective of being an integrated company; number two in the country, behind Repsol-YPF.

In less than a year CNOOC has 21.9% of its reserves in Latin America, with a boost of 28% over reserves and 18% over production.

Occidental and Sinopec

Another mayor transaction in the hydrocarbon sector in 2010 was the acquisition of Oxy's subsidiary, Occidental, by the Chinese state-owned Sinopec. It's the seventh company worldwide, fourth in the hydrocarbons sector, second in refinement capacity and first in number of oil stations. Sinopec already had presence in the region. In 2006 bought the 45% of Encana, operating in Ecuador, and 50% of Orimex, operating in Colombia. Last year bought 40% of Repsol-Brasil, who has participation in pre-sal basin.

Occidental had the control over 23 areas of exploitation in the country, but was the main producer of Santa Cruz province, who shares the San Jorge basin with Chubut. The same procedure of agreements and extension of contracts took place the last year.

China's disembark

As main points of China's operation we see the following. Taking into account some special features of Argentina, privatized industry and provincial sovereignty, the strategy was the association with local actors. These are seen as key elements and operative allies, the Argentinean group had also a good chance to expand its operations and participations in the society. In this order, reviews of China's investment should not only be seen taking into account its own interest. The organisms IEA and ECLAC coincide in the crescent autonomy and transnational rationality of the state-owned companies. In this sense, they discourage the analysis that all extraction will flow towards China; higher prices will determine it instead. The important presence of local business groups also can be seen in this line. As well, the result of capital concentration should not be underestimated.

The investments were directed to the upstream sector, holding control of the mayor basin in the country. Moreover, all points out –CNOOC's particularities and pre-sal basin precedent- that the territorial expansion will take place in offshore activities.

Another important factor is the regional approach of the investments, taking into account that Argentina has a rather small oil reservoir. In the 90's decade Repsol had the same vision when buying the Argentinean state-owned YPF, reaching numerous markets in the continent.

Maybe the great absent is the State. In these recent operations the negotiations were among privates, the strategic use of the resource, or the accumulation of benefits in the public sector were not taken into account, neither environmental policies towards the new areas. All the operations are very recent; therefore a prudent time should take place for further analysis.

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